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Nos. 86-495, 86-624, and 86-625

IN THE

Supreme Court of the United States

OCTOBER TERM 1986

K MART CORPORATION,
Petitioner,

v.

CARTIER, INC., *et al.*

47TH STREET PHOTO, INC.
Petitioner,

v.

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

UNITED STATES OF AMERICA
Petitioners,

v.

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

On Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit

BRIEF FOR AMICI CURIAE YAMAHA INTERNATIONAL CORPORATION and YAMAHA ELECTRONICS CORPORATION, USA

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BRIEF OF AMICI CURIAE IN SUPPORT OF THE POSITION OF RESPONDENTS

YAMAHA INTERNATIONAL CORPORATION
YAMAHA ELECTRONICS CORPORATION, USA

INTEREST OF AMICI CURIAE

YAMAHA INTERNATIONAL CORPORATION and its wholly-owned subsidiary, YAMAHA ELECTRONICS CORPORATION, USA, are California corporations located and doing business in Buena Park, California. (Referred to

jointly hereafter as "Yamaha"). Yamaha is the exclusive U.S. distributor of musical instruments and sound equipment manufactured by Nippon Gakki Seizo Kabushiki Kaisha a/k/a Nippon Gakki Co., Ltd. of Japan. Yamaha is the owner by assignment of several U.S. trademark registrations.[1] Pursuant to Supreme Court Rule 36.2, the written consent of the parties accompanies this brief.

Since 1960, Yamaha has been engaged in the business of advertising, promoting and selling musical instruments and sound equipment across the country under the "Yamaha" trademarks. Such equipment includes stereo system components, digital sound field processors, compact disc players, speakers, mixing consoles, sound and tone generators, recorders, digital rhythm programmers, sound synthesizers, electric pianos and keyboards, and music computer systems. This equipment is well-known for its high quality performance and is used by consumers and professionals. Over the years, Yamaha has organized and maintained an extensive dealer network across the United States through well developed dealer licensing and training programs, for the distribution and sale of "Yamaha" musical instruments and sound equipment.

Yamaha has extensively advertised its products, including at trade shows, seminars, and training sessions, spending at least $50 million over the last few years, including over $15 million in 1986 alone. Utilizing its trademarks in advertising and in identifying its products, Yamaha has a vital interest in excluding imported goods bearing trademarks identical to its registered marks. Hence, Yamaha's interest in the issue before the Court results from its desire and obligation to protect consumers and the good will associated with its famous trademarks, as well as to preserve the integrity of its dealer network and distribution system.

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[1] For example, "Yamaha", Registration No. 893,186 registered on June 23, 1970 and "Yamaha Tuning Fork Design", Registration No. 1,013,806 issued on June 17, 1975.

In a single step, certain U.S. registrants can record their trademarks with Customs, receiving protection at ports of entry throughout this country. Once recorded, goods bearing the registered trademark, whether "genuine", a copy, or counterfeit, cannot be imported into the country without the trademark owner's consent. Instead of detecting and pursuing infringers in separate civil actions, an owner of a recorded registration can rely on Customs to stop such goods at the border. Thus, a multiplicity of lawsuits by the trademark owner to enforce its rights and stop any infringements, is avoided, significantly reducing the cost of enforcement and eliminating duplicative civil actions.

However, under the current regulation as authored by Customs, Yamaha is deprived of the benefits of a genuine goods exclusion order when recording its registered trademarks. Yamaha is thus precluded from receiving the full benefit of protection under the Tariff Act of 1930, 19 U.S.C. §§ 1202-1700 (1982) from "grey market" imports. As a result, Yamaha has instituted civil actions against importers and distributors of grey market goods to protect its trademark rights. Absent the demise of the Customs regulation, Yamaha's statutory trademark rights will continue to be violated, resulting in harm to consumers and to Yamaha's good will and reputation.

SUMMARY OF ARGUMENT

The Customs regulation, 19 C.F.R. § 133.21 (1986), only exists to implement the Tariff Act of 1930, § 526, 19 U.S.C. § 1526 (1982) which is derived from the Lanham Trademark Act, 15 U.S.C. §§ 1051-1127 (1982). Yet, in this appeal the arguments on the validity issue of the regulation have focused primarily on the interpretation and legislative history of § 526 and the regulation. These arguments have inexplicably failed to consider the trademark genesis of § 526 and consequently, the impact of the Customs regulation on the substantive rights of domestic trademark registrants provided under the Lanham Act. However, when analyzed as

such, it is clear that this administrative regulation arbitrarily diminishes the substantive rights of many U.S. trademark registrants by (1) undermining the common law functions of trademarks, (2) permitting an invasion of registrants' statutory exclusive right of trademark use, (3) depriving registrants of substantive due process rights, and, (4) imposing compulsory and uncontrolled trademark licensing on registrants. In short, an administrative agency, Customs Service, has setup a regulation which is contrary to the trademark laws created by Congress and interpreted and enforced by the courts of the United States.

By contrast, the language of § 526 is in accordance with the Lanham Act and decades of precedent recognizing the right of American exclusive distributors to enforce trademarks. As a procedural trade statute, § 526 provides an efficient mechanism for protection of trademarks of domestic registrants against infringing imported goods. It does not impart substantive trademark rights nor conflict with the Lanham Act or other international reciprocity treaties. Further, the language of § 526 does not mandate a regulation to protect against anticompetitive situations. As the current regulation is out of step with trademark law, so is it out of step with this Court's antitrust precedent.

Viewing the Customs regulation from the perspective of the underlying trademark law, these *Amici* believe this Court will conclude that the regulation irreconcilably conflicts with modern trademark and antitrust law as well as the express language of § 526.

ARGUMENT

I. THE CUSTOMS SERVICE REGULATION DIMINISHES THE SUBSTANTIVE RIGHTS OF U.S. TRADEMARK REGISTRANTS

In defending the validity of the Customs regulation, Petitioners have ignored the substantive rights granted U.S. trademark registrants under modern statutory trademark

law. This appeal has become mired in a swamp of ambiguous legislative history and conflicting precedent concerning the interpretation of § 526 and the Customs regulation. However, when the emasculating affect of the Customs regulation on the rights of U.S. trademark registrants is considered, the invalidity of the regulation is apparent.

A. The Customs Service Regulation Undermines Common Law Trademark Functions

Considering the evolution of American trademark law, the Customs regulation is hopelessly irreconcilable with modern principles of such law. The foundation of American trademark law rests upon the proposition that a trademark symbolizes the good will of the product or service in connection with which the mark is employed. *McLean v. Fleming*, 96 U.S. 245 (1878). Though this fundamental proposition is unchanged, the commercial and legal perceptions of how trademarks function in the U.S. has gradually evolved during this century to meet the needs of consumers and trademark owners. For example, trademarks were once thought to represent to consumers only the source or origin of the product or service in connection with which the mark was used. 1 McCarthy, Trademarks and Unfair Competition § 3:3 (2nd ed. 1984). This strict "source" function of trademarks complemented the theory of trademark "universality" whereby goods manufactured abroad under a trademark and then imported and sold in the United States were held not to infringe the rights of the U.S. trademark owner. The belief was that because the goods originated from the same foreign source, the public could not be deceived. *Appolinaris Co., Ltd. v. Scherer*, 27 F. 18 (S.D.N.Y. 1886); *A. Bourjois & Co., Inc. v. Katzel*, 275 F. 539 (2d Cir. 1921), *rev'd*, 260 U.S. 689 (1923). However, this Court rejected the theory of "universality" in 1923. *Id.* 260 U.S. at 692.

Evolving to meet commercial reality, the "source" function of trademarks was broadened, legislatively in 1962 and judicially, to mean that the consumer expected all goods

bearing the same mark to come from a single, albeit, anonymous or indistinguishable source. Trademark Act of 1962, § 45, Sec. 21, Pub.L.No. 87-772, 76 Stat. 769, 774 (15 U.S.C. § 1127, as amended (1962)); *Syntex Laboratories, Inc. v. The Norwich Pharmacal Company*, 437 F.2d 566 (2d Cir. 1971).[2] Therefore, in order to be confused, "a consumer need not believe that the owner of the mark actually produced the item it places on the market" since a trademark functions as an indicia of affiliation, sponsorship and approval. *Warner Bros., Inc. v. Gay Toys, Inc.*, 658 F.2d 76, 79 (2d Cir. 1981).

Despite the broadening of the "source" function, the Customs regulation which is based on the archaic trademark law, improperly denies certain domestic registrants such as Yamaha, the complete benefits of § 526. Arguing that consumers know that grey market goods are of foreign manufacture or are distributed by a U.S. company related to a foreign manufacturer, Petitioners assert "no confusion of source" exists as to such goods. Brief for Petitioner K mart Corp. at 38. This argument focuses on the archaic "source" function of trademarks ignoring modern, broader protection from confusion of any kind including affiliation, sponsorship and approval.

The Customs regulation also ignores other accepted trademark functions such as the "quality" or "guarantee" function. 1 McCarthy, Trademarks and Unfair Competition § 3:4 (2nd ed. 1984). Hence, a mark not only indicates a single anonymous source, but also serves as a badge of quality

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[2]The *Syntex* court held that in amending the Trademark Act of 1962, 15 U.S.C. §§ 1051-1127 (1982), Congress evinced "a clear purpose to outlaw the use of trademarks which are likely to cause confusion, mistake or deception of any kind, not merely of purchasers nor simply as to source of origin." *Syntex*, 437 F.2d at 568.

representing a level of consistent quality of goods or services.[3] *Park'N Fly, Inc. v. Dollar Park and Fly, Inc.*, 469 U.S. 189, 193 (1985) ("trademarks desirably promote competition and the maintenance of product quality."); *Federal Trade Commission v. Borden Co.*, 383 U.S. 637, 651 (1966) (Stewart & Harlan, JJ., dissenting) ("An important ingredient of the premium brand inheres in the consumer's belief, measured by past satisfaction and the market reputation established by Borden for its products, that tomorrow's can will contain the same premium product as that purchased today.")

These trademark functions of quality and source indication are vital tools for modern business industries such as authorized dealer networks and franchises. The Customs regulation creates havoc with these businesses by aiding and abetting the unauthorized use of trademarks on goods being distributed outside of an authorized distribution system. As a result, such goods are beyond the quality and warranty control of the trademark owner.

To avert this adverse impact on the quality function of trademarks, some importers of grey goods provide warranty services.[4] But in these instances, who is the single, albeit anonymous entity which assures that all grey marketers render the same, consistent quality of product support services? The answer is, quite simply, no one. This Court has recognized that "[S]ervice and repair are vital for many products, such as automobiles and major household appliances. The availability and quality of such services affect a manufacturer's goodwill and the competitiveness of his product." *Continental T.V. v. GTE Sylvania*, 433 U.S. at 55. Yet,

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[3]The quality function of trademarks is codified by the Trademark Act of 1946, 15 U.S.C. § 1127 (definition of "related company").

[4]Some grey marketers may offer no warranty services. In *Continental T.V., Inc. v. GTE Sylvania Inc.*, 433 U.S. 36, 55 (1977), this Court observed that "[B]ecause of market imperfections such as the so called 'free rider' effect, these services might not be provided by retailers in a purely competitive situation. . . ."

the Customs regulation permits inconsistent and unpredictable levels of warranty and quality control, to the economic and legal detriment of the consumer and trademark owner.

In addition, the Customs regulation also impairs the important advertising element in promoting a merchant's goods and services. 1 McCarthy, Trademarks and Unfair Competition § 3:5 (2nd ed. 1984). Yamaha and its authorized dealers commit millions of dollars to promote products bearing registered "Yamaha" marks with the expectation that they alone will enjoy the resulting good will and economic gains from these expenditures. Such expenditures are incurred since trademarks function as a highly efficient means to create consumer demand and acceptance for the goods and services. *See Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co.*, 316 U.S. 203, 205 (1942). Yet, the Customs regulation bequeaths to grey marketers the good will of Yamaha and hands over the commercial magnetism symbolized by "Yamaha" trademarks. That grey marketers intend to poach upon the commercial magnetism is proven by the more than coincidental fact that grey marketing occurs regularly with famous trademarks such as "Yamaha" and those of other Respondents.

Hence, the Customs regulation is inconsistent with modern trademark law, failing to protect the dual interests of trademark owners and consumers as mandated by the courts and Congress. *Park'N Fly*, 469 U.S. at 198; S. Rep. No. 1333, 79th Cong., 2d Sess. 3, 5 (1946), *reprinted in* U.S. Code Cong. & Ad. News 1274.[5] The regulation inexplicably denies a certain class of domestic registrants including Yamaha, the

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[5]Congress has explained that of the two bases of trademark protection, ". . . one is to protect the public so that it may be confident that, in purchasing a product bearing a particular trademark which it favorably knows, it will get the product which it asks for and wants to get. Secondly, where the owner of a trademark has spent energy, time and money in presenting to the public the products, he is protected in his investment for its misappropriation by pirates and cheats. This is the well-

(footnote continued on next page)

procedural protections of § 526 and substantive rights of 15 U.S.C. § 1057(b). This denial is premised on an arbitrarily defined degree of ownership or relationship between the domestic trademark registrant and a foreign entity or, that the goods are made overseas where the mark is applied to the goods with permission of the U.S. trademark owner.[6] If the Customs regulation denies § 526 protection to such select domestic registrants[7] then the regulation directly conflicts with substantive trademark law by failing to consider the quality and advertising functions of trademarks. Such denial of § 526 protection thereby permits widespread grey marketing, with the Customs regulation laying the good will of and investment in the U.S. trademark owners' marks open to the unauthorized use of others, further exposing the consumer to confusion and quality problems. Thus, select domestic registrants, like Yamaha, incur the expense and

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(footnote continued from preceding page)

established rule of law protecting both the public and the trademark owner." *Id.* S. Rep. No. 1333, 2d Sess. 3, 5 (1946).

[6] Several Petitioners, such as K mart Corporation, refer to the goods as being "trademarked" by a foreign source. This term is misleading because it connotes the birth of protectable trademark rights by mere affixation of the mark to the goods. However, it is clear at both common law and under the U.S. Trademark Act that protectable trademark rights do not arise until the mark is used in U.S. commerce by an authorized entity. 15 U.S.C. § 1127 (definition of "trademark" and "use in commerce"). Moreover, it ignores the fact that any rights the purchaser obtains are limited to those granted under the laws of the country where the transaction occurs.

[7] No Petitioner has or can explain the dichotomy which exists under the current Customs regulation where confusion of source is assumed to exist for domestic trademark registrants qualifying for § 526 protection, while confusion of source is assumed not to exist for other domestic trademark owners denied § 526 protection. This paradox illustrates that there is no legal justification for the Customs regulation.

exert the effort but, receive no protection under or benefit from § 526.

B. The Customs Service Regulation Profoundly Diminishes the Exclusive Right of Use Accorded Domestic Trademark Registrants Under the Lanham Act

Because of its irreconcilable conflict with trademark law, the Customs regulation inevitably results in a deprivation of substantive statutory rights granted to Yamaha as a trademark registrant under the Lanham Act. Specifically, Yamaha, as a registrant, is deprived of its "exclusive right to use the mark in commerce in connection with the goods and services specified in the Certificate of Registration." 15 U.S.C. §§ 1057(b), 1115(b). The Customs regulation deprives many trademark registrants of the most cherished substantive right evidenced by a federal registration issued under the Lanham Act, the exclusive right of use.

By denying the complete benefits of § 526 protection to certain domestic U.S. trademark registrants, the Customs Service places its imprimatur on grey market goods. The introduction of these goods into commerce and the use of the trademark to sell the goods without the domestic registrant's consent, undeniably invades the exclusive right of use recognized by the Lanham Act. The value of the trademark to the U.S. trademark registrant clearly becomes diminished since the trademark registrant is unable to control the use of its mark or quality or servicing of goods in the grey market.[8]

The importance of the "exclusive right of use" was emphasized by this Court's pronouncement that unless an incontestable registration could be asserted to enjoin infringement by others, the "exclusive right", recognized by the

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[8] Loss of control may lead to a registrant's loss of its statutory right to exclusive use of the mark on the ground of abandonment. 15 U.S.C. § 1064(c) (cancellation of registration on the ground of abandonment); 15 U.S.C. § 1127 (definition of "abandonment of mark").

Lanham Act, would be rendered meaningless.[9] *Park'N Fly*, 469 U.S. at 196. Under the Lanham Act, the invasion of the exclusive right of use triggers a registrant's immediate right to injunctive relief "to prevent the violation of any right of the registrant of the mark registered in the Patent and Trademark Office." 15 U.S.C. § 1116; *See also St. Charles Mfg. Co. v. St. Charles Furniture Corp.*, 482 F.Supp. 397 (N.D.Ill. 1979).

The enforcement of a registrant's exclusive right to use a trademark or service mark promotes the Lanham Act goals of providing "national protection of trademarks in order to secure to the owner of the mark the goodwill of his business and to protect the ability of consumers to distinguish among competing producers." *Park'N Fly*, 469 U.S. at 198 (citing S. Rep. 1333, 2d Sess. 3, 5 (1946)). By sanctioning, carte blanche, an invasion of the statutory exclusive right of use, the Customs regulation is contrary to and frustrates the legislative goals of the Lanham Act at a time when effective protection of American intellectual property against unfair foreign trade is critical to the survival of American businesses and jobs.

Petitioners attempt to justify the invasion of the exclusive right of use on the ground that the regulation assumes (without provision for factual investigation), that domestic trademark registrants having a certain degree of foreign ownership, have not developed independent good will in the United States apart from any commercial recognition or good will which the mark may symbolize elsewhere in the

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[9] Registration of a mark on the Principal Register is *prima facie* evidence of a registrant's ownership, the validity of the registration and of the exclusive right of the registrant to use the mark in commerce in connection with the goods specified in the Certificate of Registration. 15 U.S.C. § 1057(b). After 5 years on the Principal Register, the registration assumes the status of incontestability and becomes "conclusive evidence" of the registrant's exclusive right to use the mark. 15 U.S.C. §§ 1065, 1115(b).

world. This argument is contrary to the *prima facie* presumptions of validity and ownership which are accorded all U.S. trademark registrations. The statutory presumptions of ownership and validity carry with them the assumption that good will exists and is appurtenant to the mark because by definition, a trademark is a symbol of good will and can have no existence apart from the good will which it represents. *McLean*, 96 U.S. at 252; *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 97 (1918); 15 U.S.C. § 1057(b). When a registration is granted, it is presumed by statute, that the registrant holds good will in the registered mark. Certainly, no administrative agency, including the U.S. Customs Service, can promulgate a regulation without opportunity for a fair hearing, depriving U.S. citizens of statutorily recognized rights and evidentiary presumptions.

C. Enforcement of the Customs Service Regulation Deprives Many U.S. Registrants of Substantive Due Process Rights

By refusing to grant Yamaha and other foreign-owned U.S. companies a grey goods exclusion order, the Customs Service, through its regulation, is destroying a key property right held by such trademark owners. As discussed, under the Lanham Act, a federal trademark registration recognizes valuable rights, the most important of which is the right to the exclusive use of the trademark. 15 U.S.C. 1057(b); 1115(b). It is in this sense of "exclusive right" that trademarks can be categorized as a form of "property". *Hamilton-Brown Shoe Co. v. Wolf Bros. & Co.*, 240 U.S. 251 (1916). Moreover, there is no doubt that good will, together with its symbol—the trademark—are legally classified as "property". *Old Dearborn Distributing Co. v. Seagram-Distillers Corp.*, 299 U.S. 183, 194-195 (1936).

Customs' adherence to its regulation and refusal to issue genuine grey goods exclusion orders to domestic registrants who are foreign-owned deprives these trademark owners of incidents of ownership which impart significant value to

their trademark property. The impairment of the registrants' statutory exclusive right to use their trademarks so diminishes the trademarks' values so as to amount to a "taking" of the registrants' property without just compensation in violation of the registrants' Fifth Amendment rights. *Cf. Johnson & Johnson, Inc. v. Wallace A. Erickson & Co.*, 627 F.2d 57, 59 (7th Cir. 1980).[10] This Court recognized long ago, that as a general rule, "[w]hile property may be regulated to a certain extent, if the regulation goes too far it will be recognized as a taking." *Pennsylvania Coal Co. v. Mahon*, 260 U.S. 393, 415 (1922).

Customs enforcement of its regulation amounts to nothing less than the "taking" of a U.S. trademark registrant's statutory property without just compensation. Moreover, the government's encroachment on the statutory rights of a tradmark owner does not constitute a reasonable exercise of police power for a legitimate "public use". In this regard, it is noteworthy that the regulation was not intended to protect the public's safety or to otherwise protect the public's interest. Rather, the regulation merely serves to secure and increase the monetary profits of a few grey market enterprises. Customs' enforcement of its regulation amounts to an illegal "taking" of trademark rights which unjustly deprives some U.S. registrants of due process of law.

D. The Customs Service Regulation Imposes Compulsory and Uncontrolled Trademark Licensing on a Substantial Class of Domestic Trademark Registrants

For the substantial class of domestic trademark registrants who cannot qualify under the Customs regulation for complete § 526 protection, the U.S. Customs Service grants to grey marketers the right to use a domestic registrant's mark to import, advertise and sell the goods in the United States

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[10] In this case, the Seventh Circuit found that a patentee cannot be deprived of his property in the patent right of exclusion without due process of law.

without the registrant's consent. Because of the discrimination inherent in the regulation, the Customs regulation amounts to compulsory, royalty-free licensing of the U.S. trademarks owned by domestic registrants not qualifying for § 526 protection.

Compulsory trademark licensing is an extremely punitive remedy and only considered where it has been shown that a trademark has been used contrary to competitive and consumer interests. 1A Callmann, Unfair Competition, Trademarks and Monopoly § 4.53 (4th ed. 1981).[11] There is no evidence that either the U.S. Customs Service or any court, department or administrative agency has ever conducted an investigation or issued administrative or judicial findings which would justify exacting from certain domestic trademark registrants the highly punitive remedy of compulsory, royalty-free trademark licensing.

In addition to the fact that the Customs regulation is tantamount to compulsory licensing, it is also "naked" licensing of the various trademarks of those domestic trademark registrants which do not qualify for § 526 protection. Naked licensing results when a trademark registrant fails to exercise sufficient quality control over the goods and services being offered in connection with the trademark by a licensee. 1 McCarthy, Trademarks and Unfair Competition § 18:14 (2nd ed. 1984). Naked licensing both deceives the public, which expects the same level of quality from all goods or services bearing a particular mark, and prevents the trademark owner from controlling both the quality of the goods, the use of his trademark and his business reputation which is intimately linked with the trademark. Naked or uncontrolled trademark licensing can lead to abandonment of

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[11] *E.g.*, The Federal Trade Commission requested compulsory royalty-free trademark licensing in the FTC Realemon case, *In re Borden, Inc.*, Docket No. 8978, 891 ATRR, E-1 (1978); *See also* Note, *Abuse of Trademarks: A Proposal for Compulsory Licensing*, 7 U. Mich. J.L. Ref. 644 (1974).

trademark rights as the mark may ultimately lose its significance as an indication of source and quality. See 15 U.S.C. § 1127 (definition "abandonment of mark"); *Midwest Fur Producers Assn. v. Mutation Mink Breeders Assn.*, 127 F.Supp. 217 (W.D.Wis. 1955) (naked licensing held, resulting in abandonment and estoppel to assert trademark rights).

When the Customs Service permits the passage of grey market goods through the Customhouses without consent of Yamaha and other domestic trademark registrants, such registrants have lost their right to control the use of their marks and their reputations. *Cf. Dallas Cowboy Cheerleaders, Inc. v. Pussycat Cinema, Ltd.*, 604 F.2d 200, 205 (2d Cir. 1979). The regulation thus frustrates another of the statutory goals of the Lanham Act, the ability of a trademark owner to control the good will of his business and the product quality symbolized by the trademark, as well as protecting the ability of consumers to rely on a trademark as a badge of product quality. *See Park'N Fly*, 469 U.S. at 198; S. Rep. No. 1333, 2d Sess. 3, 5 (1946).

To defend the Customs regulation and the grey marketing it promotes, it has been urged that a grey marketer may invade a U.S. registrant's exclusivity because this is consistent with the implied trademark license which a grey marketer allegedly acquires by purchase of the goods from a foreign source. This argument clearly relies on the archaic "exhaustion" concept of international trade which suggested that once a foregin trademark owner placed his goods bearing the mark into international commerce, an assignee in another country could not locally own or assert trademark rights superior to those of the foreign owner. *Osawa & Co. v. B & H Photo*, 589 F.Supp. 1163, 1174 (S.D.N.Y. 1984). However, the concept of exhaustion was inextricably linked with the theory of trademark universality which this Court rejected in favor of trademark territoriality. *A. Bourjois & Co. v. Katzel*, 260 U.S. at 692. Where a trademark owner in a different territory has acquired, or by law possesses, an independent good will as symbolized by the trademark, the

exhaustion concept is of no relevance. *See* Derenberg, *Territorial Scope and Situs of Trademarks and Good Will*, 47 Va. L. Rev. 733, 736-37 (1961) (establishment by domestic mark holder of localized good will justifies trademark protection against grey market imports).

As noted above, a domestic owner of a U.S. trademark registration possesses a *prima facie* presumption under the Lanham Act that the registered mark possesses good will. The Customs regulation denegrates this statutory presumption and imposes a contrary presumption that domestic trademark registrants who do not qualify for § 526 protection do not possess independent good will in the United States.

II. SECTION 526 OF THE TARIFF ACT IS CONSISTENT WITH AND NECESSARY TO PROTECT THE RIGHTS GRANTED TO U.S. REGISTRANTS UNDER THE LANHAM ACT

Section 526 and the Customs regulation must not be considered in a vacuum as Petitioners advocate. While § 526 is commonly understood to be a customs or trade regulation statute, application and understanding of this statute cannot be undertaken without considering the manner in which it interfaces with trademark law. The language and history of both § 526 and the Lanham Act confirm that § 526 of the Tariff Act simply provides an additional remedy to a registered trademark owner as a further means of enforcing its statutorily recognized right of exclusivity of use under the Lanham Act. Section 526, on its face, grants protection to U.S. owners of registered trademarks without limitation. By availing themselves of § 526, owners of U.S. registrations should be able to secure certain procedural benefits to enhance the protection of their registered trademarks. However, the Customs regulation arbitrarily interferes with the enjoyment of these statutorily-granted procedural benefits.

Petitioners' position that U.S. distributors and trademark registrants of foreign-made products such as Yamaha, are

not entitled to the procedural benefits of § 526 of the Tariff Act is totally contrary to a long line of distinguished trademark cases. For more than 40 years, courts have recognized the exclusive rights of American distributors and permitted trademark infringement suits to be maintained by exclusive distributors and sellers of trademarked goods who had a right by agreement with the owner of the trademark to exclude even the owner from selling in their territory.[12]

Thus, it is settled law that a trademark may not only signify the good will of a manufacturer, but may also signify the independent good will of the exclusive distributor who imports foreign-made goods and stands behind the goods sold by it. Most importantly, these decisions permit U.S. distributors to maintain infringement actions regardless of the foreign ownership of the distributors. The statutory interpretation of § 526 espoused by Petitioners conveniently ignores the trademark heritage of this section and disregards accepted case law demonstrating the invalidity of the regulation.

A plain reading of § 526 consistent with fundamental modern trademark law manifests the intention of this section to include all U.S. registrants who are citizens of and domiciliaries in the United States regardless of who their stockholders are and/or what relationship they have with foreign users of identical marks. Neither the legislative reports nor the congressional debate contain any clear evidence of a legislative intent to deny trademark protection where the owner of the U.S. mark is owned or controlled by the foreign manufacturer of trademarked goods.

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[12] *See Quabaug Rubber Co. v. Fabiano Shoe Co., Inc.*, 567 F.2d 154, 159-160 (1st Cir. 1977); *Watson v. E. Leitz, Inc.*, 254 F.2d 777, 780 (D.C. Cir. 1958); *Avedis Zildjian Co. v. Fred Gretsch Mfg. Co.*, 251 F.2d 530, 532 (2d Cir. 1958); *Georg Jensen & Wendel, A/S v. Georg Jensen Handmade Silver, Inc.*, 111 F.2d 169, 172 (C.C.P.A. 1940); and *Osawa v. B & H Photo*, 589 F.Supp. at 1179.

Petitioners ask this Court to ignore the express language of § 526, which has remained unchanged by Congress for over 60 years, in lieu of their own interpretation of the sketchy and confused legislative history of this section. Petitioners, the Customs Service and this Court, should not attempt to legislate where Congress has had the opportunity but has clearly chosen not to do so. Accordingly, these *Amici*, urge the Court to reject Petitioners' spurious statutory interpretation of § 526, on which they premise their defense of the Customs regulation, and reaffirm the plain language of the statute in view of its consistency with established trademark law and thereby invalidate the regulation.

A. Absent the Customs Service Regulation, Section 526 Provides an Efficient and Crucial Means for Protection of a U.S. Registrant's Trademark Rights

As stated above, the procedure set forth in § 526 provides one of the most efficient means of protection for a U.S. trademark owner. Rather than promote the effectiveness of the recording procedure of § 526, the Customs regulation undermines the procedural benefits of the statute. By not being able to record its trademark at Customs to receive protection from imported grey goods, the trademark owner is unable to avail itself of the vast resources of the Customs Service and guard against the unauthorized importation of any infringing products. No comparable alternate means exists for an individual trademark owner to police and control the importation and sale of infringing goods in this country.

If the U.S. trademark owner cannot stop shipments of infringing goods from the foreign source of such goods via an exclusion order, it is faced with an endless pursuit of separate infringers in the distribution chain, while infringing goods continue to pour into the country. Thus, the trademark owner is unable to effectively combat the actual cause of its infringement problems. Under the current regulation, Yamaha is unable to avail itself of the full benefits of § 526

protection against grey imports and is thereby denied enjoyment of the meaningful protection of its trademark rights intended by the Tariff Act and the Trademark Act.

B. The Statutory Preference to Domestic Registrants Under § 526 Serves a Legitimate Purpose

Unlike the provisions of the Lanham Act, § 526 does not extend its procedural advantages to foreign entities. Contrary to the view of the Federal Petitioners, § 526 does not impart any additional substantive trademark rights on its beneficiaries, and therefore is not inconsistent with § 44(b) of the Lanham Act, 15 U.S.C. 1126(b) (1982), or with relevant international treaties which require reciprocity of rights. Brief for the Federal Petitioners at 10. *See* Paris Convention for the Protection of Intellectual Property, March 20, 1883, as revised, Art. 2, 21 U.S.T. 2140, T.I.A.S. No. 6923.

As a Customs and trade regulation statute, § 526 was intended to protect American trade and domestic businesses. This is a lawful and legitimate purpose which is also the basis for similar procedural benefits accorded to U.S. owners of other intellectual property.[13] Contrary to Petitioners' belief, this purpose is not defeated by enabling legitimate domestic trademark registrants, whether partly or wholly foreign owned, to enjoy the procedural benefits of the statute. A company like Yamaha, which is incorporated in one of the 50 states, maintains a place of business in the U.S., employs U.S. citizens and pays U.S., State and local taxes, is no less of an "American" company because its capital stock is foreign owned. In fact, in defining a "domestic industry" in investigations conducted under the Tariff Act of 1930, § 337, the

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[13] Under the Copyright Act, 17 U.S.C. §§ 601-603 (1982), only a U.S. national or domiciliary can exclude the importation of certain copyrighted works while under the Tariff Act of 1930, § 337, 19 U.S.C. § 1337, merchandise may be excluded by the International Trade Commission if it finds the existence of unfair practices or unfair methods of competition causing injury to a domestic industry.

International Trade Commission often includes domestically formed entities which may be partly or wholly, foreign owned. *Certain Airtight Cast-Iron Stoves*, No. 337-TA-69, 215 U.S.P.Q. 963 (U.S. ITC 1980).

Without offer of factual support, Petitioners would have this Court accept the "negative" assumption of the Customs regulation that every domestic company with foreign ownership or manufacturing plants is not an "American" company deserving of the procedural benefits of § 526. This assumption is not only at odds with decades of case law recognizing the separate existence of a corporation from its owner(s)[14], but it is totally contrary to recent decisions where courts considering this question have found a foreign-owned domestic company to constitute a legitimate American business. *See Bell & Howell:Mamiya Co. v. Masel Supply Co.*, 548 F.Supp. 1063, 1079 (E.D.N.Y. 1982), *vacated and remanded*, 719 F.2d 42 (2d Cir. 1983); *Osawa v. B & H Photo*, 589 F.Supp. at 1165.

So long as an ongoing business is established in the United States, the purpose of § 526 is fulfilled and, the equity ownership of the business is irrelevant. For example, Yamaha maintains an established place of business in the U.S., spends thousands of dollars on advertising and promoting its trademarked products and services, provides warranty services and sells products in the U.S. and carries on all other activities engaged in by other American companies. U.S. subsidiaries of foreign manufacturers which were set up for legitimate business reasons, such as distribution, promotion,

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[14] By assuming that foreign-owned domestic companies are not legitimate American businesses, Petitioners attempt to unjustifiably pierce the corporate veil and deem the domestic companies to be the alter egos of their foreign owners. This piercing is unwarranted without a showing that the domestic companies were created for some deceitful purpose. Petitioners' gross mischaracterization of these domestic businesses as corporate shells is equally unwarranted. There is no evidence supporting or legal basis justifying Petitioners' assumptions.

and servicing of trademarked products clearly fall within the literal scope of § 526.

Moreover, there is no administrative rationale for the "negative" assumption against foreign owned registrants embodied in the Customs regulation. Petitioners speculate that in the absence of the regulation foreign companies will fraudulently apply for and receive grey goods exclusion orders pursuant to § 526. However, these concerns can easily be allayed by employing similar safeguards to those which have long been commonly used by administrative agencies. Various administrative agencies have effectively utilized and accepted sworn affidavits and/or declarations under the penalty of perjury to support statements of fact submitted for government action.[15] *See, e.g.*, administrative declarations under 18 U.S.C. § 1001 (1982).

Hence, there is no procedural justification for the Customs regulation. Employing standard administrative safeguards would allow all legitimate U.S. companies to record their trademarks with Customs, but not foreclose a challenge to the domesticity of a U.S. registrant when it seeks to enforce its rights under § 526. Interested third parties would be free to file a protest with Customs or raise the issue as a defense in a suit between the parties. Under a literal interpretation of § 526, certain U.S. registrants would not be forced to bear the burden of being precluded from obtaining relief from grey imports. Instead, the burden would be shifted to the challenger as it should be in deference to the statutory rights of exclusivity accorded to trademark owners.

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[15] For example, in its administration of a bi-level fee schedule, the Patent and Trademark Office relies on verified statements made by the patent applicant concerning its size of employment. 37 C.F.R. § 1.27 (1984). On a larger scale, the IRS routinely accepts tax returns signed by the taxpayer under the penalty of perjury. Utilizing a similar procedure, Customs could carry out the provisions of § 526 by requiring registrants to submit sworn statements verifying their domicile and citizenship.

C. The Antitrust Enforcement Rationale for the Customs Service Regulation Has No Justification In Section 526

There is no justification for the Customs regulation as an enforcement tool of U.S. antitrust law and policy. Enforcement of § 526 in accordance with its express language, is in harmony with antitrust law as articulated in *Continental T.V. v. GTE Sylvania*, 433 U.S. 36 (1977).[16] Petitioners' reliance on *United States v. Guerlain, Inc.*, 155 F.Supp. 77 (S.D.N.Y. 1957), in support of their argument that a literal reading of § 526 fosters anticompetitive practices is misplaced. The precedential value of *Guerlain* is minimal to non-existent in view of its vacatur and its dismissal with prejudice. The apparent reasoning behind the *Guerlain* court's construction of § 526 as limited to "independent" distributors was based on its view of the merits of the antitrust claims.

Under current antitrust law, the *Guerlain* court's definition of the relevant market is fatally flawed. Indeed, a key legal premise in *Guerlain*, that the relevant market consisted only of the trademarked goods, has been discredited by this Court. See, e.g., *United States v. E.I. du Pont de Nemours & Co.*, 351 U.S. 377, 393 (1956). Moreover, as noted by the government in its *amicus curiae* brief submitted to the Second Circuit in connection with *Bell & Howell v. Masel*, the *Guerlain* court's analysis is inconsistent with current legal precedent and sound economic analysis.[17] Citing this Court's decision in

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[16] Petitioners urge this Court to recognize a different and discriminatory rule as to antitrust policy when the trademark owner is a foreign-owned company than when the trademark owner is an "independent" American trademark owner. They contend that enforcement of § 526 is acceptable for competitive purposes if the registrant has no direct or indirect foreign ownership, but would violate antitrust policy if the same registrant has any foreign ownership.

[17] The first § 526 regulation which Customs promulgated was an attempt to implement its perception of antitrust policy which was undoubtedly influenced by the rationale of the Justice Department in bringing the *Guerlain* action. *See*

(footnote continued on next page)

International Boxing Club of New York v. United States, 358 U.S. 242, 251 (1959) and Sullivan, Antitrust 51 (1977), the government also explained that properly defined, a trademarked good is in a market of its own only where a supra-competitive price for that good would not cause consumers to move to other goods. The government further stated that it may not be presumed that every trademark confers such power over price. "That is a matter to be determined on the basis of the competitive reality relevant to each product." Brief for the United States of America *Amicus Curiae* at 16. *See* Joint Appendix as filed with the U.S. Court of Appeals for the D.C. Circuit at 321-342. The opinion of the district court in *Guerlain*, which adopted the same theory as the Customs regulation, has also been seriously criticized. See *Osawa v. B & H Photo*, 589 F.Supp. at 1177; *Bell & Howell v. Masel*, 548 F.Supp. at 1077 and Handler, *Trademark—Assets or Liabilities*, 48 Trade-Mark Rep. 661 (1958).

While Petitioners contend that Respondents' interpretation of the trademark laws and § 526 fosters anticompetitive practices, discriminatory pricing and violations of antitrust law and policy, they fail to produce a single shred of evidence or economic data to support this contention. Petitioners also speculate, without any economic justification or evidentiary support, that a literal interpretation of § 526 will harm consumers economically. However, the remote possibility of price savings to consumers must not in and of itself override the statutory rights guaranteed to trademark registrants under the Lanham Act. The economic rationale underlying *Continental T.V. v. GTE Sylvania* is that companies such as authorized U.S. distributors and their authorized dealers will be willing to make expenditures necessary to

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(footnote continued from preceding page)

Atwood, *Import Restrictions on Trademarked Merchandise—The Role of the United States Bureau of Customs*, 59 Trade-Mark Rep. 301 (1969). Nothing in § 526 or its legislative history even hints that Congress intended to confer authority on Customs to condition the benefits of § 526 on its analysis of antitrust policy.

make themselves strong competitors in the overall marketplace if they are protected from intrabrand competition. Without their trademark assets, U.S. distributors would not make the investments necessary to become important factors in the United States market. Yet, it is standard economic theory that the absence of a viable competitor, such as the U.S. distributors, might well decrease price competition in the long run to the detriment of consumers.

Moreover, there are numerous explanations why grey marketers can sell goods cheaper than the exclusive U.S. distributor, such as fluctuations in international currency rates, differing costs and market conditions in other countries, maintenance of dealer networks and education programs, warranty services, advertising and other public relations costs. *Osawa v. B & H Photo*, 589 F.Supp. at 1176. These expenses are incurred in connection with the maintenance and enhancement of the good will and reputation which a trademark symbolizes. *Continental T.V. v. GTE Sylvania*, 433 U.S. at 55. Such activities when undertaken by the U.S. distributor create and maintain consumers' desire for products bearing the trademark. Indeed, if consumers' desire for the trademarked merchandise was not perpetuated by the U.S. distributors/trademark owners, grey marketers would have no interest in selling the products. Petitioners' argument that arbitrary price discrimination is practiced by foreign manufacturers to unjustifiably increase the cost of trademarked goods to U.S. consumers is merely an attempt to divert attention from the free-ride taken by grey marketers on the good will and recognition built in the trademark by the U.S. owner.

Even assuming that practices of some foreign manufacturers are found to violate the antitrust laws, other remedies exist which do not detract from the statutory rights accorded to trademark owners. For instance, should antitrust violations be shown, a proper remedy would be the denial of enforcement of the trademark registration or imposition of liability for violation of the antitrust laws. *See, e.g.*, 15 U.S.C.

§ 1115(b)(7) (use of a trademark to violate antitrust laws is a defense to an incontestable trademark registration).

Furthermore, the effectiveness of the Customs regulation as an antitrust enforcement tool is highly suspect. Antitrust questions are much too complex to be fairly decided solely by reference to a short statement regarding corporate ownership required under the Customs regulation. Customs' determinations on this basis take no account, for example, of whether the similarly marked goods in fact compete with one another or if so, what is the definition of the relevant market in which they compete.[18] The Customs regulation automatically presumes antitrust violations, without any consideration of market conditions, from the sole fact of common control of foreign and domestic trademark owners. Moreover, in view of the remedial alternatives which are available[19] the regulation should not be allowed to stand and preempt the statutory trademark rights of U.S. registrants.

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[18] It is also curious that the regulation denying exclusion of genuine-foreign-trademarked goods based on the relationship between the U.S. and foreign markholders denies exclusion of imports bearing counterfeit trademarks on the same basis. What principle of antitrust law could possibly be served by withholding the exclusion of counterfeits by reason of relationships between the domestic and foreign markholders? Noteworthy is that § 42 of the Lanham Act, unlike § 526, extends protection to foreign holders of U.S. marks (under certain circumstances) as well as to U.S. citizens and corporations. *Osawa v. B & H Photo*, 589 F.Supp. at 1177.

[19] Such alternatives include civil actions to challenge the propriety of the issuance of the exclusion order based on antitrust violations, trebled damages actions, suits for unfair competition and defenses to infringement actions. See *Timken Roller Bearing Co. v. United States*, 341 U.S. 593, 598-99 (1951); *Carl Zeiss Stiftung v. V.E.B. Carl Zeiss, Jena*, 298 F.Supp. 1309, 1314 (S.D.N.Y. 1969), *aff'd as modified*, 433 F.2d 686 (2d Cir. 1970), *cert. denied*, 403 U.S. 905 (1971); and 15 U.S.C. § 1115(b)(7).

III. THE CUSTOMS SERVICE REGULATION ADVERSELY IMPACTS ON BOTH YAMAHA AND CONSUMERS AND IS AGAINST PUBLIC POLICY

The Customs regulation has a decidedly adverse impact on Yamaha and purchasers of grey market sound equipment. In defense of the regulation, all Petitioners make two erroneous assumptions: (1) that goods bearing marks identical to the registered U.S. marks are the same throughout the world and, (2) that the trademark affixed to grey goods has the same meaning to consumers, in fact and law, throughout the world.[20] From these erroneous assumptions, Petitioners conclude that the regulation is valid because through grey marketing, consumers are receiving the same goods bearing the same mark at allegedly lower prices. Both assumptions, are completely unsupported by both fact and law.

Yamaha strenuously disputes the assumption that all goods manufactured or distributed by all trademark registrants are the same throughout the world. Brief for Petitioner 47th Street Photo at 2. Because of the myriad federal and safety regulations governing the products sold by Yamaha in the U.S., as a matter of law, products bearing the "Yamaha" trademarks and intended for overseas distribution are "different because of the regulations." For example, FCC regulations specifically require products sold by Yamaha to meet certain technical specifications, bear proper labelling and to include FCC information in the owner's manual. Compact disc players sold by Yamaha are subject to FDA regulations due to the laser contained in the player. 21 C.F.R. §§ 1000, 1040 (1984). Additionally, products not intended for the U.S. market do not carry Underwriters Laboratories, Inc. (U.L.) warnings pursuant to U.L. Regulation 469. Equipment intended for overseas markets may not be able to handle the standard electrical current found in the

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[20] For example, Petitioners K mart and 47th Street Photo preoccupy themselves with trademark law from Japan and the European Economic Community. Brief for Petitioner K mart at 44; Brief for Petitioner 47th Street Photo at 40, 42.

U.S. As a result of the foregoing, grey market sound equipment drawn from overseas commerce, is distinctly different than that intended for the U.S. market notwithstanding the fact that it bears an identical mark.

In addition to the legally required differences between U.S. sound equipment and grey market equipment, there are other differences between the equipment mandated by the needs and product uses in overseas markets. For example, accessories and owners manuals differ from country to country. An owner's manual in a foreign language is of little use or benefit to a U.S. consumer.

Warranties represent another aspect of the differences between genuine and grey market equipment. Warranties and the accompanying services are not the same for equipment sold in the U.S. and other parts of the world. A U.S. consumer who purchases sound equipment intended for a foreign market expects the equipment to meet U.S. standards and that his warranty will be the same as authorized equipment because the grey market equipment bears a trademark identical to the registered U.S. trademark. However, grey market goods are often sold with no warranty. Consumers frequently become confused as to why their warranty is not the same as the warranty on authorized equipment since they look to the trademarks as badges of quality and fully expect the U.S. trademark owner to stand behind the quality of the goods. Thus, the assumption that all grey market goods are the same as goods intended for sale in the U.S. is erroneous.

The second erroneous assumption raised by Petitioners in support of the Customs regulation is that trademarks affixed to grey market goods possess the same meaning to consumers as the U.S. registered marks. It is undisputed that the bundle of substantive rights accorded trademark owners vastly differs throughout the world as a matter of sovereign

law.[21] For example, in many countries outside the United States, enforceable trademark rights are born merely through registration without regard to actual use of the mark on any goods or services. Because the nature and degree of trademark protection varies throughout the world, a trademark applied to sound equipment outside the United States may have a completely different legal function and significance than does the same mark when applied to goods in U.S. commerce.

Likewise, because the nature and quality of the goods, warranty services and advertising varies with each country based on market needs and economic and competitive considerations, trademarks necessarily take on different meanings for consumers in various countries. Thus, because consumers throughout the world have different understandings as to the kinds of goods, services and advertising symbolized by a particular trademark, it is thoroughly erroneous to assume that famous trademarks such as "Yamaha" have the same meaning to European consumers as does that same mark to U.S. consumers.

Lastly, grey market sales frustrate and interfere with the fundamental basis for the franchise system. It is difficult to explain to an authorized dealer why he must or should compete with an unauthorized dealer who utilizes the famous trademarks in the sale of grey market goods. The existence of grey market goods deters capital investment and dealer participation, and interrupts orderly distribution of goods and services under the trademark. It is only the famous brand name of Yamaha that enables the grey market dealer to effectively sell his products. Yet, it is Yamaha, the

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[21] *See* Paris Convention for the Protection of Intellectual Property, March 20, 1883, as revised, Art. 6, 21 U.S.T. 2140, T.I.A.S. No. 6923 (authorizing territorial assignments of trademark rights subject to national law); General Inter-American Convention for Trade-Mark and Commercial Protection, Feb. 20, 1929, Art. 11 (authorizing territorial transfers given reliable proof, subject to national law of transfer and registration).

trademark owner that has devoted the time and expense of creating and maintaining U.S. consumers' desire for its products.

Unauthorized grey market dealers have no incentive to protect the good will of the trademark. The marketing goal of grey marketers is to sell only famous brand goods solely on the basis of price in order to reap a profit for themselves. The commercial magnetism of Yamaha's trademarks allows the grey marketers to sell grey goods with little or no investment of their own. In this manner, the grey market dealers take a free ride on the advertising, servicing and good will associated with the trademarks while contributing nothing. Thus, the value of Yamaha's trademarks are materially diminished and could ultimately be destroyed. Under the express language of the Tariff Act and without the regulation, the quality and flow of goods under Yamaha's registered trademarks could be properly monitored to avoid consumer confusion and deception, thereby promoting the welfare and investment of Yamaha and its authorized dealers.

CONCLUSION

The judgment of the Court of Appeals should be affirmed in its entirety.

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